

**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**



**Thomas E. Hampton**  
**Commissioner**

**BEFORE THE  
INSURANCE COMMISSIONER OF  
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **Companion Specialty Insurance Company** as of October 25, 2007

**ORDER**

Pursuant to Examination Warrant 2007-4, a Financial Condition Examination of **Companion Specialty Insurance Company** as of October 25, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 5<sup>th</sup> day of May, 2008, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.



Thomas E. Hampton  
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND  
BANKING



REPORT ON ORGANIZATIONAL EXAMINATION

COMPANION SPECIALTY INSURANCE  
COMPANY

AS OF

OCTOBER 25, 2007

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Washington, D.C.  
January 25, 2008

Honorable Thomas E. Hampton  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-2502.02 of the District of Columbia Official Code, we have examined the financial condition and activities of

**COMPANION SPECIALTY INSURANCE COMPANY**

(hereinafter called the "Company") and the following Report on Examination is submitted.

**SCOPE OF EXAMINATION**

This was an organizational examination as of October 25, 2007 conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking. The Company has made application for an original certificate of authority to establish and operate a property and casualty insurance company.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the National Association of Insurance Commissioners and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

The purpose of our examination was to determine if the Company meets the minimum financial requirements to qualify for an original certificate of authority to transact business as a property and casualty insurer. In this regard, our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company, if licensed, would be in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.



## HISTORY

### General:

The Company was incorporated as Companion Specialty Insurance Company under the laws of the District of Columbia on September 24, 2007. According to its Articles of Incorporation which were reviewed by the Department, the primary purpose for which the Company was formed is to engage in the business of insurance permitted pursuant to § 31-2502.11 of the District of Columbia Official Code to be underwritten by property and casualty insurers, the power to underwrite contingent, consequential and indirect losses arising from any of the causes set forth in each such class of insurance, and to conduct any and all activities incidental to the business of underwriting such insurance and providing such insurance services.

### Capital Stock:

The Company's Articles of Incorporation authorize the Company to issue 100,000 shares of common capital stock with a par value of \$1 per share. As of October 25, 2007, the Company had issued 1 share of common capital stock to its parent, Companion Property and Casualty Insurance Company. Our review disclosed that the Company did not meet the requirements of Section 31-2503.13 of the District of Columbia Official Code which requires each stock company authorized to do business in the District to have and maintain at have all times a paid-up capital stock of not less than \$300,000. See additional comments regarding this condition in the "Comments and Recommendations" section of this Report under the caption "Capital Stock."

### Management:

Per review of the Articles of Incorporation, the following persons were serving as the Company's directors as of October 25, 2007:

<u>Name and Address</u>	<u>Principal Occupation</u>
Malcolm E. Sellers, Chairman Columbia, South Carolina	President BlueCross BlueShield of SC
Robert A. Leichtle Columbia, South Carolina	Executive Vice President and Chief Financial Officer BlueCross BlueShield of SC
Joseph F. Sullivan	Chairman Emeritus

Columbia, South Carolina

BlueCross BlueShield of SC

Judith M. Davis  
Columbia, South Carolina

Executive Vice President and Chief  
Legal Counsel BlueCross BlueShield  
of SC

Charles M. Potok  
Columbia, South Carolina

President  
Companion P&C Group

William R. Shrader  
Columbia, South Carolina

Vice President and Chief Actuary  
BlueCross BlueShield of SC

Michael J. Mizeur  
Cary, North Carolina

Finance Officer  
BlueCross BlueShield of SC

There are no independent members of the Company's Board of Directors, however, the Company's ultimate parent, BlueCross BlueShield of South Carolina is an insurer that satisfies the independent director requirements of Section 31-706(c)(5) of the District of Columbia Code.

#### Officers:

Per review of the Consent To Action of the Board of Directors, the following persons were serving as the Company's officers as of October 25, 2007:

Malcolm E. Sellers  
Charles M. Potok  
Curtis C. Stewart  
Laura W. Robinson  
Steven C. Bloss  
Jeri Boysia  
Vivian B. Gray  
Robert A. Leichtle  
Dinah Raven  
Bruce Honeycutt

Chairman and Chief Executive Officer  
President  
Vice President and Chief Financial Officer  
Vice President  
Vice President  
Vice President and Actuary  
Secretary  
Treasurer and Assistant Secretary  
Assistant Treasurer  
Audit and Compliance Officer

#### Committees:

The Company has established in its bylaws that there shall be an Audit Committee which shall be designated as a standing committee composed of two or more members and the duties, rules, and procedures shall be prescribed by the Board of Directors. As of October 25, 2007, members of the Audit Committee had not been appointed by the Board. However, the ultimate parent, BlueCross BlueShield of South Carolina is an insurer with a

standing Audit Committee that meets regularly and therefore satisfies the committee requirements of Section 31-706(c)(5) of the District of Columbia Code.

Conflicts of Interest:

The Company does not have employees. All directors, officers and employees of the ultimate parent are required to sign conflict of interest statements yearly. Our examination did not disclose any conflicts of interest that would adversely affect the Company.

Corporate Records:

The Company's Board of Directors has not held any meetings. The current Directors were named in the Company's Articles of Incorporation, and will serve until the first annual meeting of its stockholders. The Directors' actions and oversight of the operation and affairs of the Company were documented via resolutions. These resolutions were approved by the members of the Board. Based on our review, it appeared that these resolutions documented the Company's significant transactions and events.

**AFFILIATED COMPANIES**

The Company is a wholly owned subsidiary of Companion Property and Casualty Insurance Company, a stock insurance company domiciled in South Carolina. Companion Property and Casualty Insurance Company is a wholly owned subsidiary of BlueCross BlueShield of South Carolina, a for profit mutual insurance company. BlueCross BlueShield of South Carolina is owned solely by its policyholders with no individual policyholder having more than a 10% interest in BlueCross BlueShield of South Carolina.

Upon licensing, the Company will be part of a holding company group and will be subject to the requirements of Title 31, Subtitle 2 ("Holding Companies"), of the District of Columbia Official Code.

The BlueCross BlueShield of South Carolina holding company structure as of October 25, 2007, is depicted in the following chart:



## ORGANIZATIONAL CHART

BlueCross BlueShield of South Carolina (NAIC #38520)	Domiciliary
Palmetto GBA, LLC (100%)	<u>Jurisdiction</u>
TriCenturion, Inc. (25%)	South Carolina
Q2 Administrators, LLC (100%)	South Carolina
BlueChoice HealthPlan of South Carolina (100%)	Delaware
UCI Medical Affiliates, Inc. (63%)	South Carolina
First Sun EAP Alliance, Inc. (100%)	South Carolina
Companion Global Healthcare (100%)	Delaware
Companion Professional Services, LLC (50%)	South Carolina
Companion Data Services, LLC (100%)	South Carolina
TrailBlazer Health Enterprises, LLC (100%)	Delaware
TriCenturion, Inc. (25%)	South Carolina
Companion Property and Casualty Insurance Company (100%) (NAIC #12157)	Delaware
Companion TPA, LLC (100%)	South Carolina
UCI Medical Affiliates, Inc. (6%)	South Carolina
Companion Commercial Insurance Company (100%) (NAIC #10794)	Delaware
<b>Companion Specialty Insurance Company (100%)</b>	South Carolina
Companion Captive Insurance Company (100%) (NAIC #11985)	<b>District of Columbia</b>
Thomas H. Cooper & Company, Inc. (100%)	South Carolina
InStil Health Insurance Company (100%)	South Carolina
Planned Administrators Incorporated (100%)	South Carolina
Companion Capital Management, Incorporated (100%)	South Carolina
Optical Image Technology, Inc. (100%)	South Carolina
PBGA, Inc. (100%)	South Carolina
CIMR, Inc. (100%)	South Carolina
Companion Life Insurance Company (100%) (NAIC #77828)	South Carolina
Companion Insurance Services, LLC (100%)	South Carolina
Companion Benefit Alternatives, Incorporated (100%)	South Carolina
Preferred Health Technologies, Incorporated (100%)	South Carolina
Alpine Agency, Incorporated (100%)	South Carolina
BlueCross BlueShield of South Carolina Foundation (controlled)	South Carolina



## **INTERCOMPANY AGREEMENTS**

The Company will have an administrative agreement with its ultimate parent, BlueCross BlueShield of South Carolina (BCBSSC). The Company will have no employees and will have an agreement with BCBSSC to provide administrative services. A substantial portion of the Company's offices, other facilities and services will be provided by BCBSSC. Reimbursement to BCBSSC for services and facilities will be based on allocations of actual costs incurred due to BCBSSC for un-reimbursed expenses paid on behalf of the Company.

The Company will also be a party to a tax allocation agreement with BCBSSC. BCBSSC and its eligible subsidiaries file a consolidated federal income tax return. Under the proposed tax sharing agreement, BCBSSC collects from or refund to the subsidiaries the amount of taxes or benefits based on the Company's proportionate share of the consolidated federal income tax liability computed as if the companies filed separate returns, multiplied by the total consolidated federal income tax return liability.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company will be covered by BCBSSC's financial institution bond. The fidelity bond coverage currently in place for BCBSSC of \$20,000,000 exceeds the minimum amount recommended by the National Association of Insurance Commissioners on a consolidated basis.

In addition, the Company will be added as an insured on other insurance policies (e.g., directors and officers, errors and omissions). Also, certain risks will be retained by insurers within the holding company structure on behalf of the Company. These risks include auto, workers' compensation, employer's liability, commercial property and general liability. Based upon our review, the Company's proposed insurance coverage for these risks appears adequate.

## **STATUTORY DEPOSIT**

The Company is not required to maintain a statutory deposit with the District of Columbia Department of Insurance, Securities and Banking and has not made any such deposit.

## **TERRITORY AND PLAN OF OPERATION**

The Companion Property and Casualty Group (the Group) currently consists of two domestic property / casualty insurance companies, Companion Property and Casualty

Insurance Company, the parent, and Companion Commercial Insurance Company. The Group specializes in providing commercial insurance coverage throughout much of the United States in addition to acting as a servicing carrier for state insurance facilities. The Group is currently licensed to write business in forty two states and the District of Columbia and actively writes business throughout twenty eight states and the District of Columbia with the largest being Pennsylvania which represents approximately 16% of premiums. Insurance coverages provided are primarily workers' compensation which accounts for approximately 77% of total business, commercial multiple peril, commercial automobile coverage and commercial package policies. In addition, the Group writes contents coverage on resort condominiums primarily in South Carolina and Florida.

The Group's servicing carrier business is comprised of seven state specific contracts in which the Group administers workers' compensation assigned risk policies. The states are: Arkansas, Georgia, New Jersey, North Carolina, South Carolina, Tennessee, and Virginia.

The Group seeks to increase its fee for service business as a third party administrator for self insured programs and is focused on the small to medium sized market.

The Company will have an office physically located in the District of Columbia which will house two employees, a Claims Adjuster and a Marketing Representative. The Group currently writes \$206 million of workers compensation premium. Based on the Group's overall premium writings in Virginia, Maryland and North Carolina, management predicts to write workers' compensation premiums between \$2 million and \$3 million and other liability premiums of \$1 million in the District of Columbia.

## REINSURANCE

### ASSUMED

The Company does not have any initial plans to enter into reinsurance assumption contracts. However, the Company does anticipate assumption business through assigned risk plans.

### CEDED

The Company will engage in reinsurance ceded transactions as a part of its overall underwriting and risk management strategy. Initially, the Company will be 100% reinsured by its direct parent, Companion Property and Casualty Insurance Company. As excess

business is written, reinsurance will be obtained from outside sources. Maximum retentions in any one risk will range from \$500,000 for property to \$2,500,000 for catastrophe.

### **ACCOUNTS AND RECORDS**

The Company does not currently have a statutory home office located in the District of Columbia. The Company's main administrative office, as well as the primary location of its books and records, is in Columbia, South Carolina, at the location of the principal offices of the Company's ultimate parent, BlueCross BlueShield of South Carolina.

This arrangement does not meet the requirements of Section 31-5204 of the District of Columbia Official Code, which requires that a domestic insurer maintain its principal office within the District. Specifically, Section 31-5204 of the District of Columbia Official Code requires that a domestic insurer maintain its principal office within the District and shall keep its books, records, and files therein, and shall not remove from the District either its principal office or its books, records, or files without the permission of the Commissioner. The Company needs to apply to the Commissioner for permission to maintain its books and records in Columbia, South Carolina.

In a November 6, 2007 letter to the Commissioner, the Company requested permission to continue to maintain its books and records in Columbia, South Carolina, upon licensing as a District of Columbia domestic insurer.

In a letter dated January 24, 2008, permission was granted by the Commissioner for the Company to maintain its books and records in Columbia, South Carolina.

The Company's general accounting records are maintained by its parent, Companion Property and Casualty Insurance Company, on its parent's systems. According to the Company, the Company will utilize the accounting software systems and bookkeeping and accounting resources of its parent company.



## FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of October 25, 2007, as determined by this organizational examination (**NOTE 1**):

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	
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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.



## STATEMENT OF ASSETS, LIABILITIES, CAPITAL AND SURPLUS

### ASSETS

#### Assets

Cash	<u>\$25,000,000</u>
Total Assets	<u>\$25,000,000</u>

#### Liabilities, Capital and Surplus

Total Liabilities	<u>\$ 0</u>
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#### Capital and Surplus

Common Capital Stock	\$ 1
Paid-In and Contributed Surplus	\$24,999,999
Total Capital and Surplus	<u>\$25,000,000</u>
<u>Total Liabilities, Capital and Surplus</u>	<u>\$25,000,000</u>

**SUMMARY OF OPERATIONS**  
**FOR THE ORGANIZATIONAL DATE ENDED OCTOBER 25, 2007**

Income

Interest Earned	\$ <u>0</u>
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Total Income	\$ 0
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Expenses	\$ <u>0</u>
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Net Income	\$ <u>0</u>
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**RECONCILIATION OF CAPITAL AND SURPLUS**  
**ENDED OCTOBER 25, 2007**

Beginning Balance at September 1, 2007	\$ <u>0</u>
Net Income (Loss)	0
Capital Contributions	<u>25,000,000</u>
Net Change in Capital and Surplus	<u>25,000,000</u>
Capital and Surplus, October 25, 2007	<u>\$25,000,000</u>

### **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of the examination.



## NOTES TO FINANCIAL STATEMENTS

### 1. Capital, Surplus and Risk-Based Capital Standards:

Chapter 25 (“FIRE, CASUALTY AND MARINE INSURANCE”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code requires the Company to have and maintain minimum capital of \$300,000 and minimum surplus of \$300,000.

In addition, Chapter 20 (“RISK-BASED CAPITAL”) of Title 31 of the District of Columbia Official Code requires the Company to maintain statutory capital and surplus levels as determined in accordance with the applicable risk based capital formulas.

## COMMENTS AND RECOMMENDATIONS

### Capital Stock:

Section 31-2503.13 of the District of Columbia Official Code requires a stock company authorized to do business in the District to have and maintain at all times a paid-up capital stock of not less than \$300,000, and a surplus of not less than \$300,000. However, our examination disclosed that the Company only had issued 1 share of common stock with a par value of \$1 per share. Subsequently, on January 16, 2008, the Company amended its Article of Incorporation to issue 299,999 shares of common stock with a par value of \$1 per share. As a result, the Company is now in compliance with Section 31-2503.13 of the District of Columbia Official Code. **We recommend that the Company continues to stay in compliance with the provisions of §31-2503.13 of the District of Columbia Official Code.**

### Additional Comments and Recommendations:

The Company must meet the following additional requirements:

1. Must join the District of Columbia Guaranty Fund.
2. Must file Quarterly Financial Statements.
3. Must file reports on D.C. Escheatable property, as required by Chapter 2 of Title 42 of the District of Columbia Related Laws to the Insurance Code.
4. Must prepare an Annual Audited Report in accordance with the statutory accounting practices as required by the District of Columbia Official Code, § 31-303.
5. Must pay its share of the Insurance Regulatory Trust Fund Assessments.
6. Must file an Annual Actuarial Opinion on the Company's reserves.
7. File policy forms and rates with the Department for approval.
8. Must limit net amount of risk retained for an individual risk to no more than 10% of capital and surplus as required by District of Columbia Official Code § 31-2502.12.

The above stated requirements are not all inclusive and the Company will have additional regulatory and compliance requirements, which must also be satisfied.

## CONCLUSION

Our organizational examination disclosed that as of October 25, 2007, the Company had:

Admitted Assets	<u>\$ 25,000,000</u>
Liabilities	<u>\$ 0</u>
Common Capital Stock	\$ 1
Gross Paid In and Contributed Surplus	<u>\$ 24,999,999</u>
Surplus as regards policyholders	<u>\$ 25,000,000</u>
Total Liabilities and Surplus	<u>\$ 25,000,000</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company at October 25, 2007. The Company has requested an original certificate of authority to transact a property and casualty insurance business in accordance with Title 31, Chapter 25 ("Fire, Casualty and Marine Insurance") of the District of Columbia Official Code. Based on our examination, the Company meets the minimum capital and surplus requirement of Section 31-2502.13 of the District of Columbia Official Code, except as noted in the "Comments and Recommendations" section of this Report under the caption "Capital Stock." and is entitled to the issuance of a certificate of authority to transact a property and casualty insurance business.

**SIGNATURES**

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "N.K. Brown", written over a horizontal line.

Nathaniel Kevin Brown, CFE  
Examiner-In-Charge  
District of Columbia Department of  
Insurance, Securities and Banking

Under the Supervision of,

A handwritten signature in blue ink, appearing to read "D.A. Palmer", written over a horizontal line.

David A. Palmer, CFE  
Chief Financial Examiner  
District of Columbia Department of  
Insurance, Securities and Banking



**Government of the District of Columbia**  
Department of Insurance, Securities and Banking



Thomas E. Hampton  
Commissioner

April 8, 2008

Charles M. Potok  
President  
Companion Specialty Insurance Company  
P.O. Box 100165  
Columbia, South Carolina 29202-3165

Dear Mr. Potok:

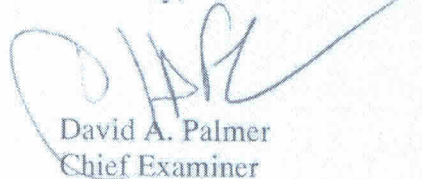
Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Limited Scope Examination of the affairs and financial condition of **Companion Specialty Insurance Company** as of October 25, 2007.

Please call our attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (May 8, 2008)**.

Sincerely,



David A. Palmer  
Chief Examiner

Enclosure



**Companion P&C**

*Real Solutions. Real People. Real Smart.™*

P.O. Box 100165 | Columbia, South Carolina 29202-3165  
(803) 735-0672 | (800) 845-2724  
www.CompanionGroup.com

April 10, 2008

David A. Palmer  
Chief Financial Manager  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Re: Companion Specialty Insurance Company

Dear Mr. Palmer:

This letter is written in response to your letter dated April 8, 2008. We have reviewed the examination report issued in regards to Companion Specialty Insurance Company. We have not discovered any errors or omissions that require further attention.

The Company will continue to comply with applicable regulatory and compliance requirements including but not limited to the "additional comments and recommendations" indicated on page 15 of this report.

The Company accepts the Examination Report. We appreciate your cooperation in this matter. Please contact us if you have any further concerns.

Sincerely,

Charles M. Potok, President  
Companion Property and Casualty Insurance Company

**Competence. Caring. Character.**

Companion Property & Casualty sets the national standard for value-added insurance products and solutions by providing superior service and security for our customers, employees and owners.

*SM Service Mark of Companion Property & Casualty Group*

**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**



**Thomas E. Hampton**  
**Commissioner**

May 5, 2008

Charles M. Potok  
President  
Companion Specialty Insurance Company  
P.O. Box 100165  
Columbia, S.C. 29202

Dear Mr. Potok:

We are in receipt of your response, dated April 10, 2008, which addresses the corrective actions taken by Companion Specialty Insurance Company to comply with the recommendations made in the Report on Examination as of October 25, 2007, dated January 25, 2008.

Your response adequately addresses the recommendations made in the Report. During our next examination of the Company, we will review the implementation of the corrective actions taken.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.

Charles M. Potok  
Companion Specialty Insurance Company  
May 5, 2008  
Page 2 of 2

Please contact me at 202-442-7785 if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read 'D. Palmer', with a long horizontal flourish extending to the right.

David A. Palmer  
Chief Financial Examiner

Enclosures